



January 5, 2010

Assembly Committee on Jobs, the Economy and Small Business

Wisconsin Capital Access Program – Assembly Bill 532

Representative Peter Barca

Chairman Molepske and members of the Assembly Committee on Jobs, the Economy and Small Business, thank you for holding a public hearing on Assembly Bill 532, which would expand access to credit for small businesses by creating a state-wide Wisconsin Capital Access Program (WCAP) to provide banks with additional incentive to issue commercial loans which would not otherwise meet conventional underwriting standards.

Following the national economic downturn that occurred over a year ago, credit markets have drastically tightened and that has made it more difficult for small businesses to receive the funding they need to open and operate. This program attempts to motivate banks to lend to small businesses and ultimately produce a win-win for both businesses and banks.

The Wisconsin Capital Access Program encourages financial institutions to offer loans to small and medium-sized businesses that are slightly riskier than those that would be traditionally approved under conventional underwriting by establishing a loan loss reserve fund. The lender and the borrower pay a small percentage of the loan amount as an up-front insurance premium which is matched by the state and deposited into the reserve fund for the lender to use as additional collateral on the loan.

Currently, 26 states and two major cities have Capital Access Programs to encourage small business lending in a cost-effective manner. This proposal expands on a highly successful Capital Access Program which has been in operation in Milwaukee since 1992.

Under the program, the banks negotiate the loan terms directly with the borrower and use their own forms, standards, and procedures. This is not an incentive to make careless or risky loans, but the program can help get credit flowing again to businesses in need by providing supplemental reserve protection against potential loan defaults.

An additional benefit is that the program has a rather low cost for a large reward. The state must match only a small percentage of what are comparatively small commercial loans, however with the state's temporary investment in the loan loss reserve fund, loans can be granted that can spur economic development, create jobs, and prove profitable for banks. Reserve funds on loans that have been repaid are returned to the program to be reused in future loans.

Thank you for your time today and I hope that I can count on your support when Assembly Bill 532 comes for a vote before this committee.